

First Read

Essential Utilities Inc

Q4/2020 Adj. EPS in-line; '21 guidance unchanged

Q: How did the results compare vs expectations?

A: In line. WTRG reported Q4/full year 2020 adjusted EPS of \$0.46/\$1.58. These results are in line with consensus and UBS estimates of \$0.45/\$1.57 and \$0.45/\$1.58, respectively, and are above prior period results of \$0.28/\$1.47. Full year 2020 EPS guidance was \$1.53-\$1.58 (top end).

Q: What were the most noteworthy areas in the results?

A: Full year results benefited from the acquisition of Peoples Gas (customer credits are excluded from the adjusted results), higher rates and volume growth (driven by favorable weather and work-from-home orders). Vs. the prior year fourth quarter, results benefited from the Peoples Gas acquisition, higher rates and volume growth.

Q: Has the company's outlook/guidance changed?

A: Earnings guidance for 2021 is unchanged at \$1.64-\$1.69. The projected EPS CAGR is 5-7% through 2023, driven by water rate base growth of 6-7% and gas rate base growth of 8-10%. WTRG currently has six signed purchase agreements for additional water and wastewater systems serving approximately 227,000 customers/\$438mm of rate base, including the DELCORA system. WTRG has rate proceedings pending in Virginia and Indiana.

Q: How would we expect investors to react?

A: In line. On the investor call, we are looking for an update on the DELCORA (and other) acquisitions, the catch-up repairs tax proceeding, and the performance of both the Peoples Gas and Texas based subsidiaries through the recent polar vortex event.

Key Metrics(\$)

	Consensus estimates	UBS estimates	Actual	% diff vs. UBS
Q4 Adj. EPS	\$0.45	\$0.45	\$0.46	+2.2%
2020 Adj. EPS	\$1.57	\$1.58	\$1.58	0.0%

Source : UBS Equity Research, FactSet, Company Reports

Equities

Americas

Water Utilities

12-month rating **Neutral**

12m price target **US\$45.00**

Price (24 Feb 2021) **US\$44.09**

RIC: WTRG.N BBG: WTRG US

Trading data and key metrics

52-wk range	US\$50.31-32.65
Market cap.	US\$7.99b
Shares o/s	178m (COM)
Free float	100%
Avg. daily volume ('000)	411
Avg. daily value (m)	US\$19.1
Common s/h equity(12/20E)	US\$2.35b
P/BV(12/20E)	4.8x
Net debt to EBITDA(12/20E)	4.0x

EPS (UBS, diluted) (US\$)

	12/20E	Cons.
Q1	0.60	0.60
Q2	0.29	0.29
Q3	0.23	0.23
Q4E	0.45	0.45
12/20E	1.58	1.54
12/21E	1.68	1.67
12/22E	1.79	1.79

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Highlights(US\$m)	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
Revenues	810	838	881	1,049	956	995	1,033	1,072
EBIT (UBS)	329	337	370	527	425	454	482	512
Net earnings (UBS)	240	251	265	403	299	319	342	365
EPS (UBS, diluted) (US\$)	1.35	1.41	1.48	1.58	1.68	1.79	1.92	2.05
DPS (net) (US\$)	0.79	0.88	0.91	0.97	1.04	1.11	1.19	1.27
Net (debt) / cash	(2,121)	(2,376)	(2,670)	(2,744)	(2,931)	(3,066)	(3,186)	(3,293)
Profitability/valuation	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
EBIT (UBS) margin %	40.6	40.3	42.0	50.3	44.5	45.6	46.7	47.7
ROIC (EBIT) %	8.4	7.9	8.0	10.6	8.1	8.3	8.4	8.6
EV/EBITDA (UBS core) x	17.0	17.6	18.7	15.6	18.4	17.6	16.7	16.2
P/E (UBS, diluted) x	24.8	25.0	27.3	28.4	26.7	25.0	23.4	21.9
Equity FCF (UBS) yield %	(1.6)	(1.6)	(1.8)	1.7	0.5	0.8	1.1	1.5
Dividend yield (net) %	2.4	2.5	2.2	2.2	2.3	2.5	2.7	2.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$ 44.09 on 24-Feb-2021

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Forecast returns

Forecast price appreciation	+2.1%
Forecast dividend yield	2.4%
Forecast stock return	+4.4%
Market return assumption	5.1%
Forecast excess return	-0.7%

Company Description

Essential Utilities, Inc. provides regulated water and wastewater services to approximately 3m people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia and distributes natural gas to approximately 2m people in western Pennsylvania, West Virginia and Kentucky. WTRG's water operations represent approximately \$5.5bn of rate base value, while its gas distribution operations represent approximately \$2.5bn of rate base. Growth is generated by infrastructure investment (pipes, plants, etc.), strategic M&A (water/wastewater) and management of private water systems.

Valuation Method and Risk Statement

Risks include, but are not limited to: rising interest rate; regulatory and policy risks; operational risks; construction risks; water quality, safety and contamination risk; physical risk to the water sources, treatment or delivery systems; cybersecurity risk; drought and extreme weather events. Our price target is premised upon a 7% discount to the 2021E average UBS water P/E multiple. The discount reflects the sum of: a 5% discount to reflect Water group over-valuation relative to the S&P 500, 5% premium to reflect high quality regulatory jurisdiction ranking, 7% premium to reflect operations in six Fair Market Value states, and 14% discount to reflect impact of lower P/E associated with gas earnings.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	51%	31%
Neutral	FSR is between -6% and 6% of the MRA.	37%	29%
Sell	FSR is > 6% below the MRA.	12%	18%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2020.

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Company Name	Reuters	12-month rating	Price	Price date
Essential Utilities Inc ¹⁶	WTRG.N	Neutral	US\$44.09	24 Feb 2021

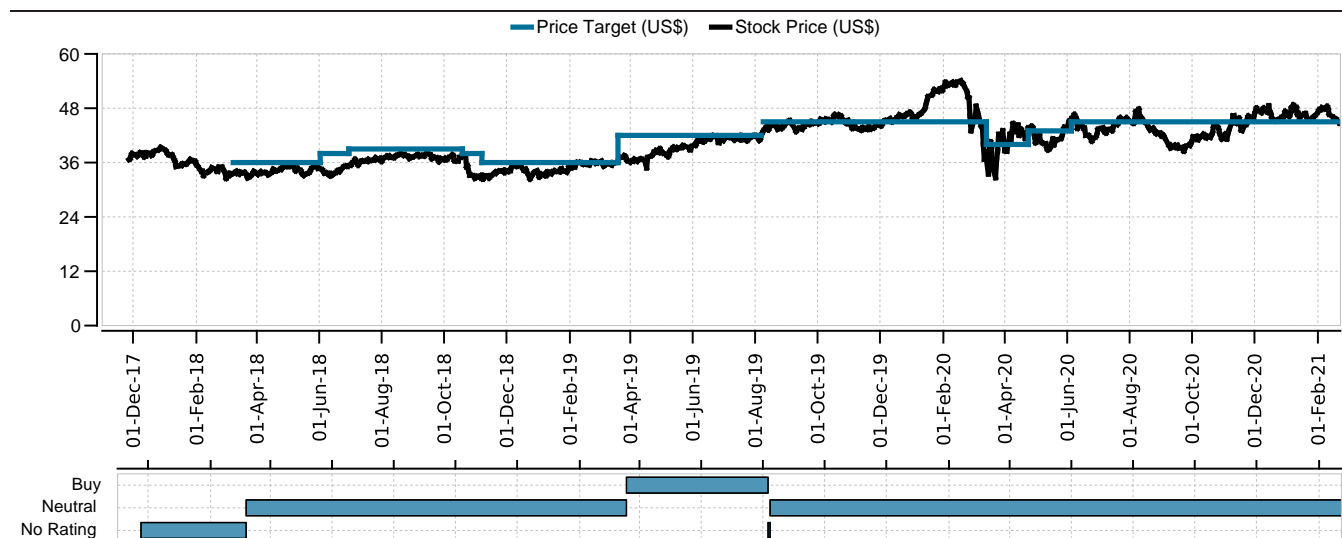
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Essential Utilities Inc (US\$)



Date	Stock Price (US\$)	Price Target (US\$)	Rating
2017-11-24	36.57	-	No Rating
2018-03-08	33.52	36.00	Neutral
2018-06-01	34.71	38.00	Neutral
2018-06-29	35.18	39.00	Neutral
2018-10-18	37.23	38.00	Neutral
2018-11-06	32.59	36.00	Neutral
2019-03-19	36.12	42.00	Buy
2019-08-06	41.15	-	No Rating
2019-08-08	42.47	45.00	Neutral
2020-03-13	38.43	40.00	Neutral
2020-04-23	42.62	43.00	Neutral
2020-06-04	44.51	45.00	Neutral

Source: UBS; as of 24-Feb-2021

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